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# CANTOL LIMITED 1972 ANNUAL REPORT

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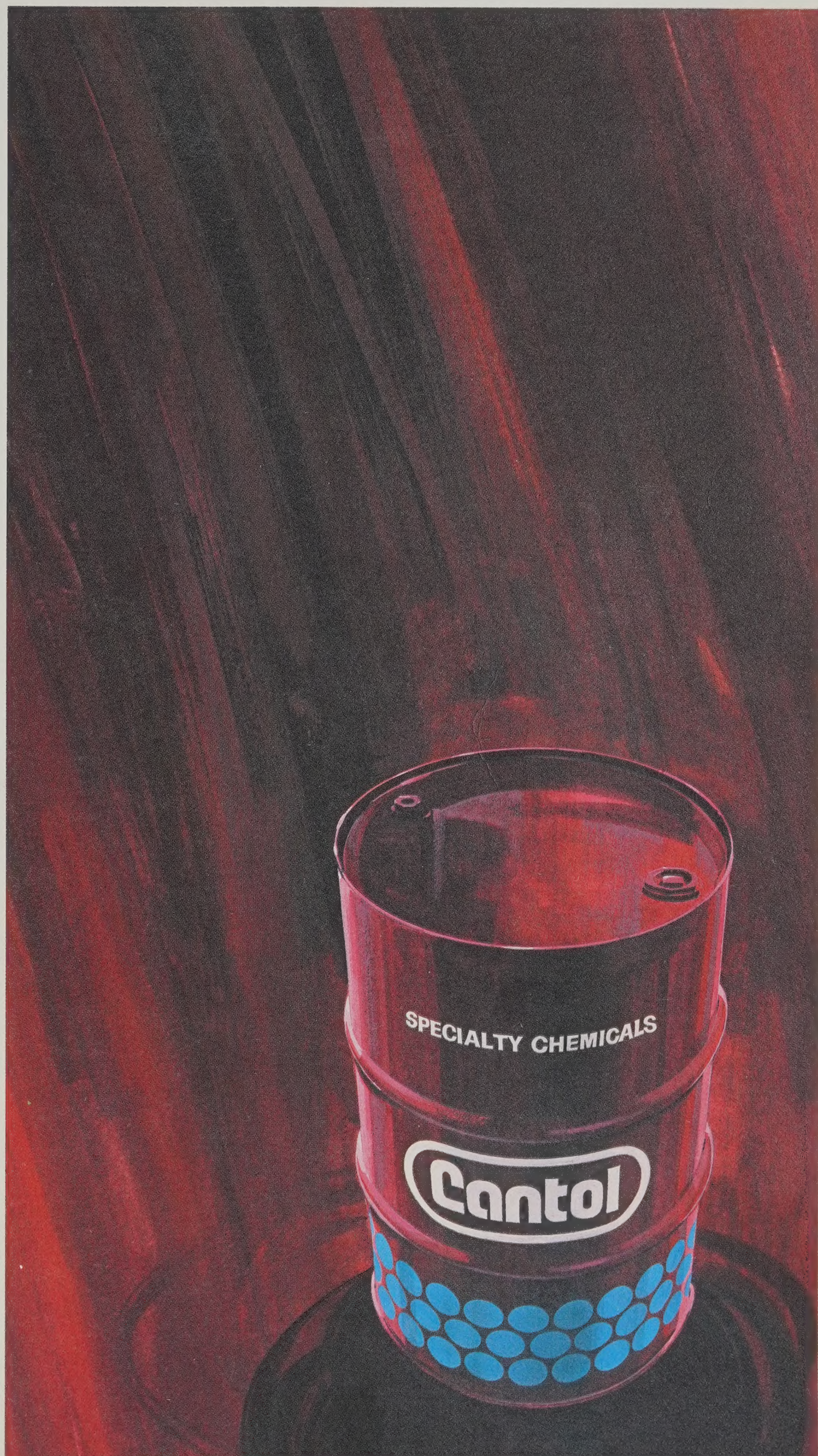


# CANTOL LIMITED – CANTOL LIMITEE

## HEAD OFFICE
9729 Cote de Liesse, Dorval, Quebec

## EXECUTIVE OFFICES AND PLANT
199 Steelcase Road, Box 2400, Don Mills, Ontario

## SUBSIDIARY AND ASSOCIATED COMPANIES
Canadian Permag Products Ltd.
Cantol Inc. - Creco Division
La Compagnie Paulette Inc.
Momar (Canada) Limited
Neo Drug Company
Northern Realty Company
Warco Lubricants

## AUDITORS
Soberman, Isenbaum, Colomby & Nisker

## BANKERS
Canadian Imperial Bank of Commerce

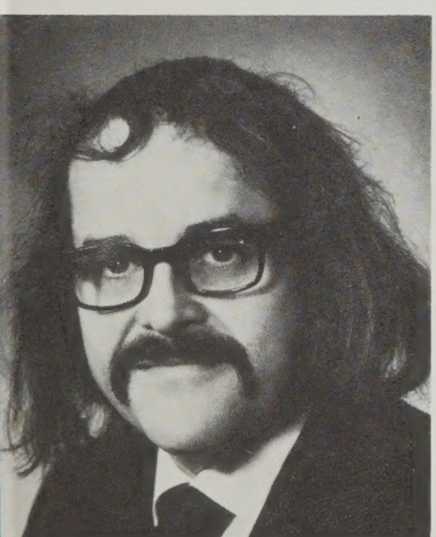
## TRANSFER AGENT AND REGISTRAR
Crown Trust Company

## STOCK LISTING
Canadian Stock Exchange

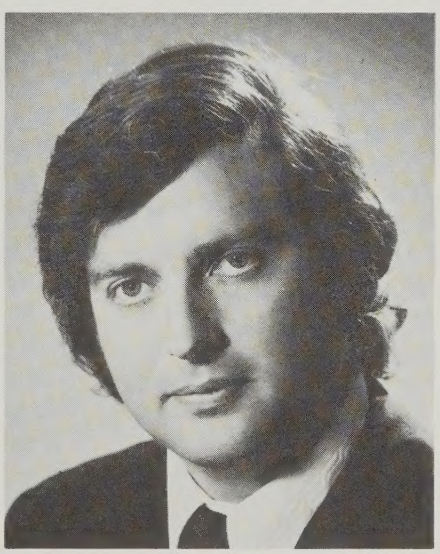
cantol

# DIRECTORS AND OFFICERS

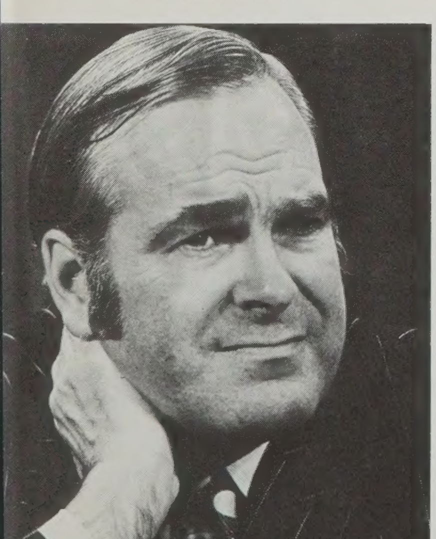
Edward Bayer Jerry Sone



Simms Shuber



Jeffrey Bayer



Senator Keith Davey

## DIRECTORS

### Edward Bayer Jerry Sone

Edward Bayer and Jerry Sone formed a partnership 11 years ago to establish a company which has been the base from which the chemical operations of today's company has been developed. The close partnership still exists today with Edward Bayer occupying the role of President and Jerry Sone as Executive Vice President.

### Jeffrey Bayer

Jeffrey Bayer joined the chemical company ten years ago, about a year after the company was established. He has played a key role in the development of the company and is currently Vice President of Momar and General Manager.

### Simms Shuber

Simms Shuber is a partner in the legal firm of Shuber Gluckstein in Toronto. He was instrumental in the re-organization of Cantol after the present Board secured control of the company. He is the Treasurer of the company and also President of Cantol Inc. in New York.

### Senator Keith Davey

Senator Keith Davey is a prominent Canadian Nationalist who is active in a wide range of Canadian public charitable and sports activities. He is a former National Director of the Liberal Party of Canada. Recently he proposed and then chaired the Senate Committee of mass media. He operates his own communications consultant company.

## OFFICERS

Edward Bayer
President

Jerry Sone
Executive Vice President

Jeffrey Bayer
General Manager

Norman Leach
General Manager, U.S.A.

William McAlpine
Vice President, Sales

Dr. Ernest Knapp
Director of Research

Simms Shuber
Treasurer

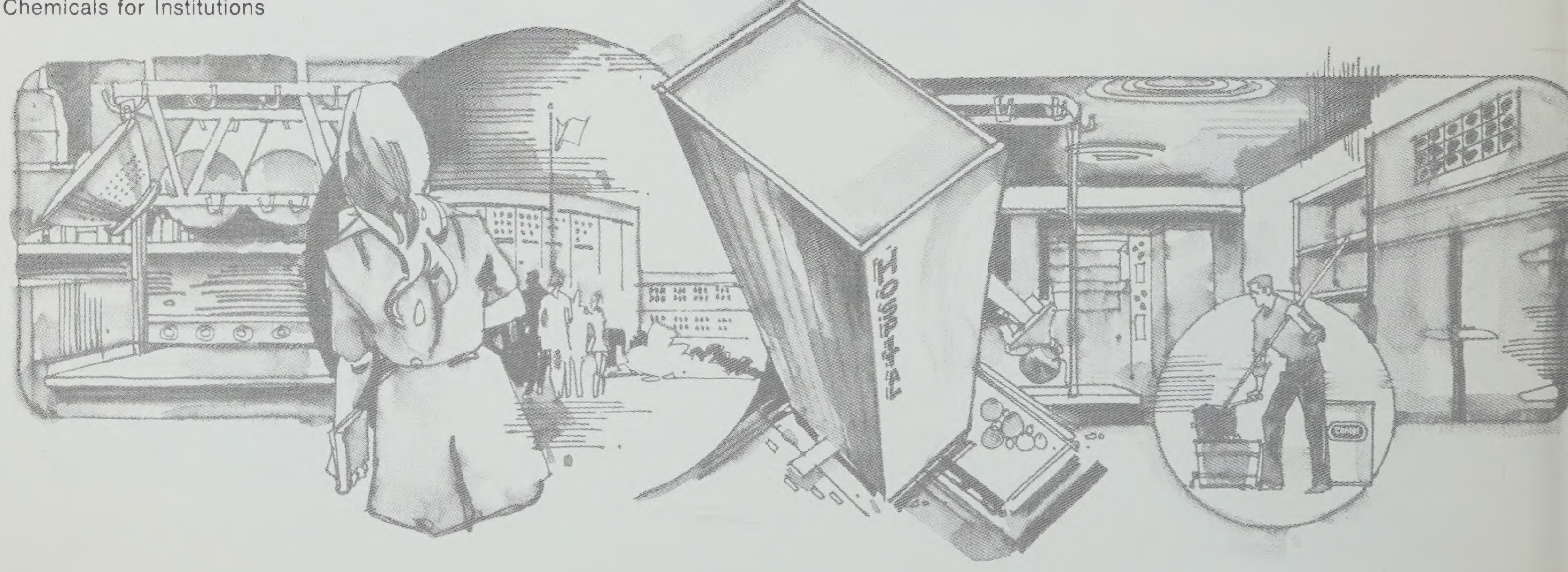
Audrey White
Comptroller

# CANTOL LIMITED — CANTOL LIMITEE
and Subsidiary Companies

## FINANCIAL HIGHLIGHTS

| | **1972** | 1971 |
|---|---|---|
| Sales | **$3,009,392** | $2,617,074 |
| Income before extraordinary items | **236,999** | 189,408 |
| Net Income | **265,299** | 226,472 |
| Cash flow from operations | **295,118** | 261,154 |
| Working capital | **1,231,420** | 1,085,789 |
| Additions to fixed assets | **56,841** | 98,422 |
| Current ratio | **4.0:1** | 5.2:1 |
| Equity | **3,137,507** | 2,809,836 |
| Earnings per share | | |
| before extraordinary items | **.52** | .43 |
| net earnings | **.58** | .51 |
| Cash flow per share from operations | **.64** | .59 |
| Shares outstanding | **461,645** | 445,367 |

Chemicals for Institutions



# PRESIDENT'S MESSAGE

## REPORT TO THE SHAREHOLDERS

The full benefits of our consolidation of operations and the centralization of production into the one unit in Metro Toronto were shown in 1972. While sales showed an increase of almost 15% to $3,009,392, operating costs rose by a lesser degree giving the company an operating earnings increase of over 27% to a record $460,177.

Our expansion program within the specialty chemical field was continued during 1972 with the acquisition of Creco Co. of Long Island, New York at the beginning of October. The acquisition was made by our New York subsidiary, Cantol Inc., carrying on business as Creco. The performance of this company for the last three months of the year, although minimal in relation to total sales and profits, has been consolidated into our overall figures. Results so far indicate that the long-term prospects of the New York operation are exceptional. Many Cantol products are complementary to the lines previously marketed by Creco, and the early integration of the two lines being sold by the New York sales force is most encouraging. Similarly, we have incorporated some of the former Creco products into the Canadian marketing system with good results.

All the Canadian operating divisions have continued to prosper. The integration of Warco Lubricants, acquired by the company in 1971, into the total Canadian manufacturing and sales operation played a part in the growth of the company's industrial division.

New product innovations during 1972, together with an increase in the sales force helped bring about the 15% sales growth.

Working capital increased to $1,231,420, ensuring the company remains in a sound financial position. The ratio of current assets to liabilities at December 31 was 4 to 1.

The potential of the U.S. acquisition, coupled with our sound financial position give encouragement to further expansion through acquisition. You will be kept informed of any developments along these lines during the year.

During 1972 two new members were elected to the Board of Directors. Jeffrey Bayer, who has been with the chemical division since 1962, and is currently general manager of the company, joined the Board. We were also honoured to have one of Canada's pre-eminent public figures, Senator Keith Davey, accept an invitation to join the Board.

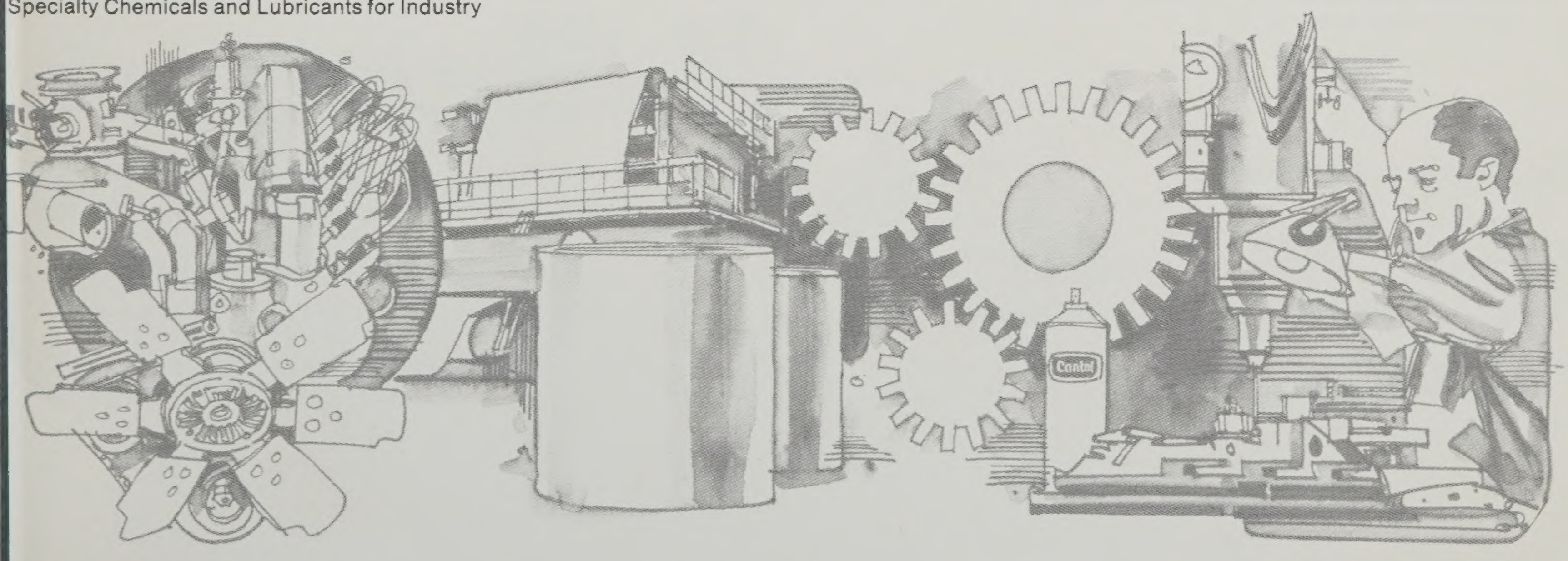
We sincerely appreciate the continued support of our shareholders, employees, customers and associates in maintaining our successful growth.

On behalf of the Board of Directors:

E. Bayer

Edward Bayer, President

Specialty Chemicals and Lubricants for Industry



# CANTOL LIMITED — CANTOL LIMITEE

## and Subsidiary Companies

## CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31. 1972 (with comparative figures for 1971)

### ASSETS

| | Cost | Accumulated Depreciation | 1972 | 1971 |
|---|---|---|---|---|
| Current assets | | | | |
| Cash and short-term deposits | | | **$ 601,807** | $ 468,329 |
| Accounts receivable | | | **633,825** | 551,459 |
| Inventories - at lower of cost or net realizable value | | | **351,653** | 265,556 |
| Prepaid expenses and sundry assets | | | **47,325** | 52,973 |
| Total current assets | | | **1,634,610** | 1,338,317 |
| Fixed assets | | | | |
| Land | 306,000 | - | **306,000** | 328,500 |
| Building | 144,000 | 27,744 | **116,256** | 122,760 |
| Machinery and equipment | 187,890 | 90,045 | **97,845** | 60,536 |
| Leasehold improvements | 55,983 | 8,506 | **47,477** | 51,876 |
| | 693,873 | 126,295 | **567,578** | 563,672 |
| Excess of cost of investments in subsidiaries over their net assets at acquisition (note 1) | | | **1,666,409** | 1,548,335 |
| | | | **$3,868,597** | $3,450,324 |

### LIABILITIES

| | 1972 | 1971 |
|---|---|---|
| Current liabilities | | |
| Accounts payable and accrued charges | **$ 276,065** | $ 234,235 |
| Income taxes | **8,404** | - |
| Notes payable (note 2) | **101,250** | - |
| Current portion of long-term debt | **17,471** | 18,284 |
| Total current liabilities | **403,190** | 252,519 |
| Long-term debt and other non-current liabilities (note 3) | **311,435** | 370,879 |
| Deferred income taxes | **5,000** | 5,400 |
| Minority interest in subsidiary company | **11,465** | 11,690 |

### SHAREHOLDERS' EQUITY

| | 1972 | 1971 |
|---|---|---|
| Capital stock (note 5) | | |
| Authorized: | | |
| 1,500,000 common shares of $0.20 par value | | |
| Issued | | |
| 1972 - 654,065 shares (1971 - 637,787 shares) | **130,813** | 127,557 |
| Contributed surplus | **3,426,699** | 3,367,583 |
| Retained earnings | **476.464** | 211,165 |
| | **4,033,976** | 3,706,305 |
| 192,420 common shares of the parent company held by a subsidiary | **896,469** | 896,469 |
| | **3,137,507** | 2,809,836 |
| | **$3,868,597** | $3,450,324 |

Approved on behalf of the Board

Edward Bayer ........................ Director

Simms Shuber ........................ Director

The accompanying notes form an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1972 (with comparative figures for 1971)

| | 1972 | 1971 |
|---|---|---|
| Sales | | |
| Operating costs and expenses | **$3,009,392** | $2,617,074 |
| Cost of sales, selling, general and administrative expenses, except for the following: | **2,534,507** | 2,229,107 |
| Depreciation | **30,444** | 37,150 |
| Interest on long-term debt | **13,806** | 16,564 |
| Other interest | **3,085** | 1,806 |
| Interest earned | **( 32,627)** | ( 29,728) |
| | **2,549,215** | 2,254,899 |
| Income before income taxes, minority interest and extraordinary items | **460,177** | 362,175 |
| Income taxes | **223,403** | 173,235 |
| Income before minority interest and extraordinary items | **236,774** | 188,940 |
| Minority interest in share of loss of subsidiary | **225** | 468 |
| Income before extraordinary items | **236,999** | 189,408 |
| Extraordinary items (note 6) | **28,300** | 37,064 |
| Net income for the year | **$ 265,299** | $ 226,472 |
| Earnings per share (note 7) | | |
| Before extraordinary items | **.52** | .43 |
| Extraordinary items | **.06** | .08 |
| Net income | **.58** | .51 |

# CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1972 (with comparative figures for 1971)

| | 1972 | 1971 |
|---|---|---|
| Balance at beginning of the year | **$3,367,583** | $3,340,494 |
| Excess of proceeds over par value of capital stock issued under employee's stock option (note 5) | **59,116** | 27,089 |
| Balance at end of the year | **$3,426,699** | $3,367,583 |

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1972 (with comparative figures for 1971)

| | 1972 | 1971 |
|---|---|---|
| Balance at beginning of the year | **$ 211,165** | $ 1,600 |
| Net income for the year | **265,299** | 226,472 |
| | **476,464** | 228,072 |
| Less: adjustment of prior years' income taxes | **-** | 16,907 |
| Balance at end of the year | **$ 476,464** | $ 211,165 |

The accompanying notes form an integral part of the consolidated financial statements.

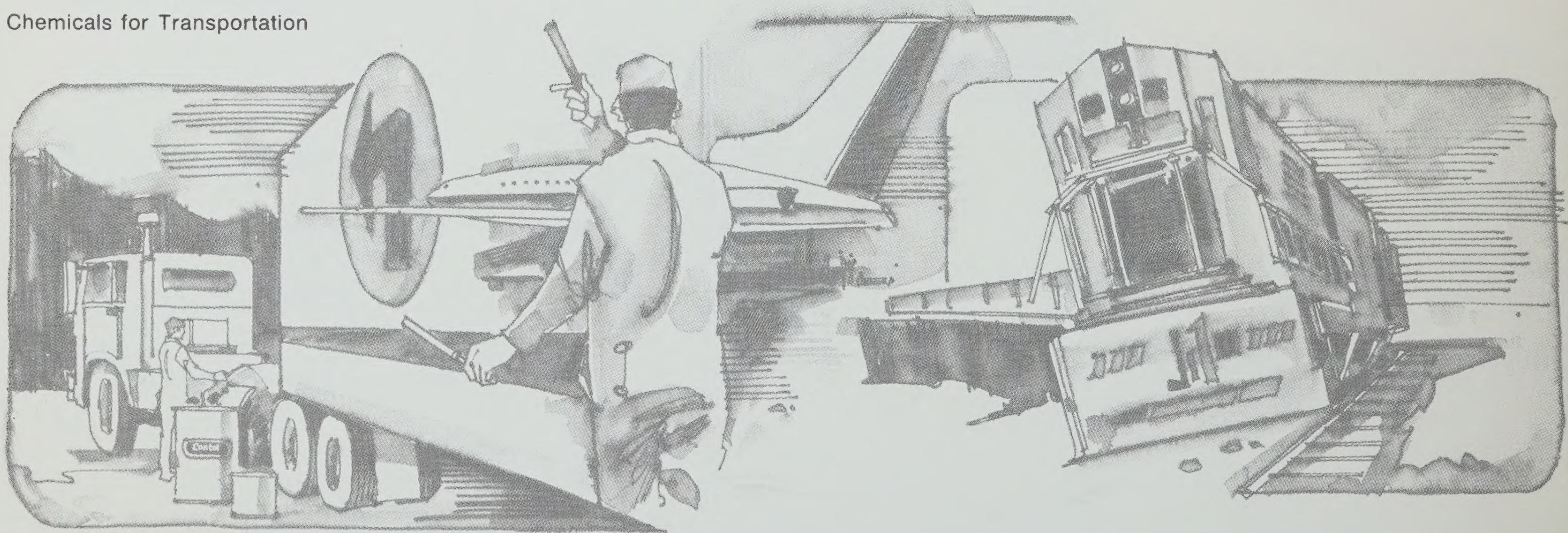
# CANTOL LIMITED — CANTOL LIMITEE
## and Subsidiary Companies

## CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1972 (with comparative figures for 1971)

| | **1972** | 1971 |
|---|---|---|
| Source of funds | | |
| Operations | | |
| Net income for the year | **$ 265,299** | $ 226,472 |
| Add back charges not requiring funds | | |
| Depreciation | **30,444** | 37,150 |
| Decrease in deferred income taxes | **( 400)** | ( 2,000) |
| Minority interest in share of loss of subsidiary | **( 225)** | ( 468) |
| Total funds from operations | **295,118** | 261,154 |
| Disposal of real estate properties | **22,500** | 203,998 |
| Issue of common shares under employees' stock option plans | **62,372** | 29,158 |
| Reduction in non-current portion of instalment accounts receivable | **-** | 55.933 |
| | **379,990** | 550,243 |
| Use of funds | | |
| Excess of cost of investment in assets acquired during the year over their book value (note 1) | **118,074** | - |
| Additions to fixed assets | **56,841** | 98,422 |
| Reduction in long-term debt and other non-current liabilities | **59,444** | 46,677 |
| Prior years' income taxes | **-** | 16.907 |
| | **234,359** | 162,006 |
| Increase in working capital | **145,631** | 388,237 |
| Working capital at beginning of the year | **1,085.789** | 697,552 |
| Working capital at end of the year | **$1,231,420** | $1,085,789 |

The accompanying notes form an integral part of the consolidated financial statements.

Chemicals for Transportation



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31. 1972

1. Principles of consolidation

The consolidated financial statements include the accounts of the company and all of its subsidiaries. Effective September 25, 1972, a newly formed wholly-owned subsidiary, Cantol Inc. (a New York company) acquired the assets and business, on a going concern basis, of Creco Company Inc., a U.S. chemical manufacturer. The results of this new subsidiary's operations, representing a contribution to net income of $1,521, have been consolidated from that date. The "goodwill" acquired amounted to $118,074 and is included in the item shown on the balance sheet as "excess of cost of investments in subsidiaries over their net assets at acquisition".

2. Notes payable

This represents the unpaid balance of the purchase price of the business acquired during 1972 (note 1) and is payable in three equal quarter-yearly instalments with interest at 6% per annum.

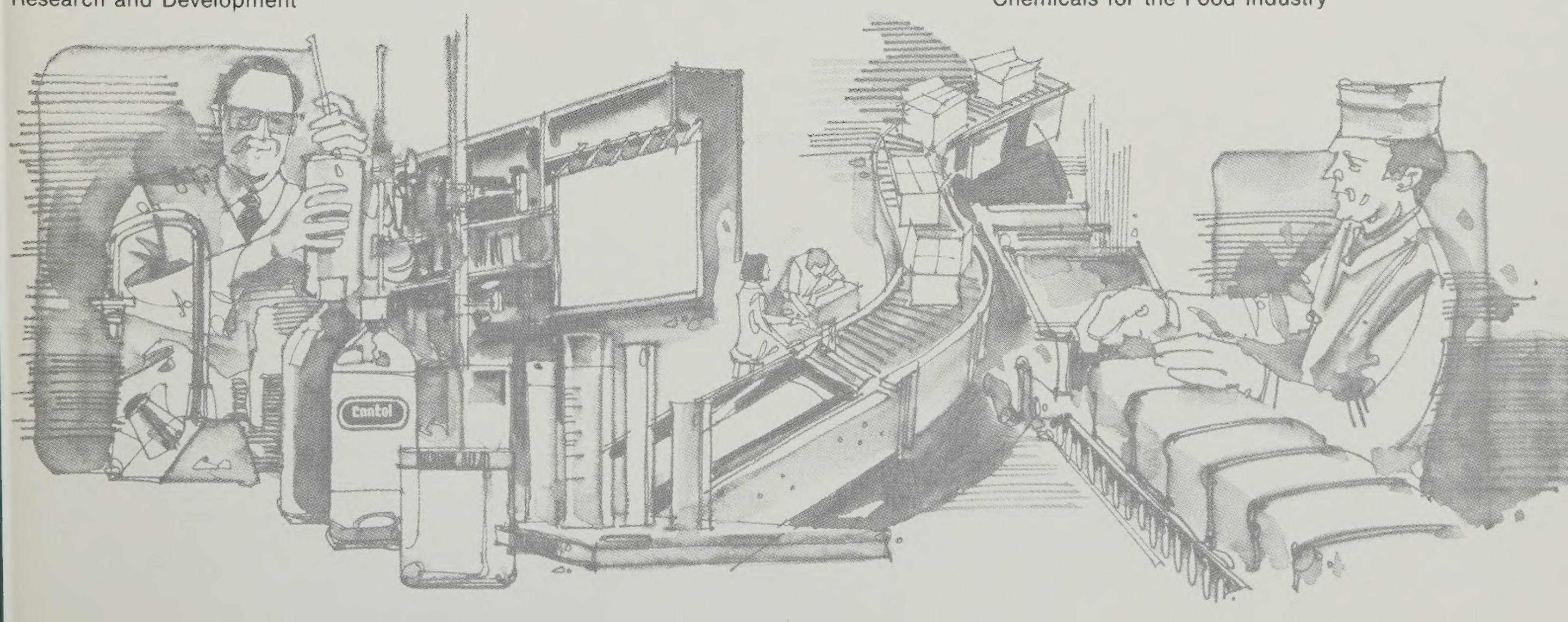
3. Long-term debt and other non-current liabilities

(a) Long-term debt

| | **1972** | 1971 |
|---|---|---|
| Notes payable, without interest. repayable in instalments as follows: $10,000 in 1973 $14,000 annually in 1974 through 1983 | **$150,000** | $160,000 |
| 7½% first mortgage, repayable in monthly instalments of $1,597, including principal and interest, due March 15, 1976 | **161,706** | 168,647 |
| 11% first mortgage, repaid during 1972 | **-** | 35,516 |
| | **311,706** | 364,163 |
| Less: principal payments due within one year | **17,471** | 18,284 |
| | **294,235** | 345,879 |
| (b) Provision for estimated losses as a result of operations discontinued (net of current portion) | **17,200** | 25,000 |
| | **$311,435** | $370,879 |

Research and Development

Chemicals for the Food Industry



4. Income taxes

As at December 31, 1972, the company has losses available for carry forward for which tax recoveries have not been recognized in the accounts. At current tax rates, the future tax credits will, if realized, amount to approximately $132,000.

The company is presently contesting income tax assessments received for the years 1965 through 1969, amounting to approximately $36,000. These amounts have been paid and have been charged off to retained earnings pending final disposition of the company's appeal.

5. Capital Stock

(a) During 1972 16,278 common shares were issued for cash under employees' stock option plans, as follows:

| | Number of Shares | Consideration Received |
|---|---|---|
| Under the 1971 stock option plan at $3.30 per share, which expired May 15, 1972 | 13,278 | 43,824 |
| Under the 1972 stock option plan at $6.16 per share, expiring May 15, 1973 | 3.000 | 18.548 |
| | 16.278 | 62,372 |

Of the total consideration received, the premium of $59,116 was credited to contributed surplus.

(b) Stock options

As at December 31, 1972 15,500 common shares are reserved for the following:

(i) 10,000 shares under a stock option plan established in 1969 for executives of a subsidiary for issue up to May 1, 1974. The options are exercisable in cumulative instalments of up to 2,000 shares per annum at 90% of the closing market price on the date of exercise of the option.

(ii) 5,500 shares under an employees' stock option plan established in 1972, exercisable up to May 15, 1973 at $6.16 per share.

6. Extraordinary items

This consists of the following:

| | **1972** | 1971 |
|---|---|---|
| Gain (loss) on disposal of real estate properties, net of income taxes ... | **($ 2,500)** | $55,968 |
| Fire loss of real estate property | | ( 18,904) |
| Reduction in income taxes as a result of loss carry forward .... | **30,800** | - |
| | **$28,300** | $37,064 |

7. Earnings per share

Earnings per share are calculated using the weighted average number of shares outstanding during the year. In the calculations, the 192,420 common shares of Cantol owned by a subsidiary were treated as though these shares were not issued.

Assuming the exercise of all the outstanding stock options and providing for imputed earnings at the rate of 6% before tax on the deemed proceeds of the exercise of the stock options, the fully diluted earnings per share would be:

| | **1972** | 1971 |
|---|---|---|
| Before extraordinary items .... | **$ .51** | $ .42 |
| Net income .................. | **$ .57** | $ .50 |

8. Remuneration of directors and senior officers

The total remuneration paid by the company and its subsidiaries to its directors and senior officers was $146,850 in 1972 and $112,450 in 1971.

9. Long-term leases

The company has entered into long term leases with respect to its existing operations with various expiry dates to 1981. Minimum rentals (exclusive of taxes, insurance and maintenance costs) for the total period of five years under these leases are approximately $353,000.

In addition, the company is committed to leases on twelve store locations in connection with operations that have been discontinued. The gross liability under these leases approximates $121,265; however, all twelve locations have been subleased and provision has been made in the accounts for the estimated future net losses to be incurred with respect thereto (see note 3(b) ).

# AUDITORS' REPORT

To the Shareholders of
Cantol Limited - Cantol Limitée

We have examined the consolidated balance sheet of Cantol Limited - Cantol Limitée and subsidiary companies as at December 31, 1972, and the consolidated statements of income, contributed surplus, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Soberman, Isenbaum, Colomby & Fisker

Chartered Accountants

Toronto, Canada
March 12, 1973